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JULY 1983 ISSUE

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This forecast uses the June, 1983, U.S. Department of Commerce third revised estimates of 1983:1 National Income and Product data. Also used is the June 1983, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

Growth for 1983 is projected now in the 3.0 per cent range. The second quarter was an improvement over the first quarter, but inventory changes somewhat exaggerated the growth. REAL GROWTH Mixed news with industrial output creeping up but at a slower rate than in the prior two months. The continued rising of the factory use rate and retail sales is somewhat balanced by the small durable goods orders gain and problems in steel and machine tools. PRICES The 0.5 per cent gain in May is not the start of the trend. Inflation is now forecast at 3-3.5 per cent in terms of CPI changes. EMPLOYMENT The 1/10 of a per cent move down in the jobless rate is in line with the forecast here of gradual--very gradual--improvement here to a fourth quarter average of rougly 9.3 per cent. HOUSING Starts are now seen as reaching 1.6 million this year. The supply on hand is too high for housing to have substantial gains or reach a more normal average of 1.8 to 2.0 million. AUTOS The forecast is not changed despite the mid-June leap. GOVERNMENT BUDGETS State tax increases and social security contributions expansion negate the mid-year tax credit. The federal deficit forecast for fiscal 1984 is now $172 billion. INCOME The forecast is adjusted slightly with personal income seen as expanding 5.9 per cent this year. Savings are being adversly affected by more state and local taxes to pay and higher utilities. MONEY AND CREDIT M1 is forecast here as expanding 7.0 per cent, Fed's tightening has been projected for two years. INTEREST RATES They will be going up as projected. The prime rate will go up to 11.8 per cent by year's end. Mortgage rates will end the year in the 12.5 per cent range.

1.02 OVERVIEW

The Commerce Department projected 1983 second quarter growth at an annual rate of 6.6 per cent based on tentative data. Much publicity was generated from that in terms of very positive interpretations

OVERVIEW

of the "sparkling economy," "strongest sign," etc.

The second quarter certainly will show a great improvement over the 2.6 per cent growth rate of the first quarter, but KEDI projects the rate at a somewhat less sparkling 6.0 per cent. The reason is found in the changes in inventories. The increase in inventories in the second quarter coming on the heels of a decline of over $15 billion in the first quarter accounts for around $20 billion of the GNP. That is, it has not been totally the production of final goods and services that contribute to the growth as about two-thirds of the change came from inventories. In the table here, the KEDI figure of 6 per cent growth is used to compare the components of GNP between the first and second quarter.

Comparison of GNP and Components in Constant 1972 $

	1983:1 Actual data	1983:2 KEDI estimate
GNP Components:		
Personal Cons. Expenditures	972.9	980.0
Gross Private Domestic Investment	196.7	222.6
Fixed Investment	212.2	217.2
Change in Inventories	-15.1	5.4
Net Exports	24.7	17.7
Government Expenditures	292.4	295.1
GNP Total	1486.7	1515.4

Data for all components of GNP except those for inventories change show a modest growth. The drop in inventories in the first quarter made the second quarter GNP figure seem better than it is--but it is still quite good.

KEDI agrees with Edward Yardeni of Prudential-Bache that growth for the rest of the year will slow down to the 2-3 bracket. To be more specific, growth is now seen here as being closer to 3 per cent than to 2.5 when this year is compared to 1982. When looking at the fourth quarter of this year, expansion is forecast at an annual rate of 5 per cent as compared to the like period of the prior year. To summarize, KEDI agrees that recovery is on the way. It is just not quite as robust as 6.6 per cent.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, no changes took place.

1. In 1983, it is expected the weighted price of oil will be $27 per barrel; in 1984 it will go up to $29 per barrel; in 1985, to $30 per barrel; in 1986, to $32 per barrel; and in 1987, $34 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1983-1987 period. In the second half of 1983 some increases, and in 1984-1985 stabilizing are expected.

4. Increases in state and local taxation in 1983-1986 are anticipated.

5. In 1983 and 1984 good harvests are assumed for this country, and average production of crops is expected in the U.S.S.R. and China in these years. U.S. record crops are expected in 1985-1986.

6. Average rates of growth in 1983-1986 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.4%; Japan 2.6%.

7. No drastic changes in international relationships are assumed.

The July 1983 KEDI forecast is highlighted on page 4.

1.10 REAL GROWTH

(Table 1.10 on page 5)

There is mixed economic news. Fortunately, the preponderance is on the bright side. There is good news in terms of industrial output, new orders, retail sales. factory shipments, and factory use, but problems do and will continue for machine tools, plant and equipment spending, and steel, for example.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1982	1983	1986	1987
Gross national product	bil. 1972$	1476.1	1519.7	1724.9	1800.8
Index of industrial production	1967= 100	138.6	146.2	185.6	196.9
Capacity utilization	%	69.8	73.1	81.0	82.7
Unemployment rate	%	9.7	9.8	7.4	6.8
Private housing starts	mil.	1.061	1.576	1.674	1.710
Car sales	mil.	8.0	8.8	9.7	10.0
Implicit GNP price deflator	1972= 100	207.1	217.1	254.9	269.9
Consumer price index	1967= 100	288.6	297.8	342.3	361.5
Producer price index*	1967= 100	280.6	286.2	335.9	353.3
Federal deficit	bil.$	-149.3	-186.9	-98.4	-84.0
Personal income	bil.$	2569.9	2720.6	3457.2	3695.7
Prime rate	%	14.86	10.84	12.14	11.73
Mortgage rate	%	15.57	12.60	13.62	12.81
Currency plus demand deposits	bil.$	475.4	508.7	612.5	649.9
Commercial and industrial loans	bil.$	394.6	418.9	495.5	524.2

* Finished goods

In the June 1, 1983 issue, by typing error, incorrect data for the 1986 and 1987 Car Sales are presented. Correct data are: 1986--9.7; 1987--10.0. KEDI regrets the inconvenience.

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Gross national product,1972$	bil. 1972 $	1476.1	1486.7	1515.4	1531.3	1545.5	1519.7	3.0
Index of industrial product.	1967=100	138.6	138.0	144.2	148.8	153.6	146.2	5.9
Unemployment rate	%	9.7	10.4	10.0	9.6	9.3	9.8	1.2
Capacity utilization rate	%	69.8	68.8	72.4	74.3	76.8	73.1	4.7
Private housing starts	mil. units	1.061	1.693	1.605	1.600	1.416	1.576	48.5
Car sales	mil. units	8.0	8.4	8.8	8.8	9.0	8.8	10.0

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Gross national product,1972$	bil. 1972 $	1519.7	1560.9	1582.8	1597.9	1616.7	1589.6	4.6
Index of industrial product.	1967=100	146.2	158.1	162.3	166.7	170.1	164.3	12.4
Unemployment rate	%	9.8	9.1	9.0	8.6	8.2	8.7	-11.4
Capacity utilization rate	%	73.1	78.0	79.6	80.1	81.1	79.7	9.0
Private housing starts	mil. units	1.576	1.481	1.818	1.830	1.607	1.684	6.9
Car sales	mil. units	8.8	9.1	9.0	9.4	9.5	9.2	4.5

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Gross national product,1972$	bil. 1972 $	1589.6	1628.3	1644.7	1664.5	1684.0	1655.4	4.1
Index of industrial product.	1967=100	164.3	173.2	175.6	177.3	178.9	176.3	7.3
Unemployment rate	%	8.7	8.1	7.9	7.8	7.3	7.8	-10.6
Capacity utilization rate	%	79.7	81.5	82.0	82.6	82.7	82.2	3.1
Private housing starts	mil. units	1.684	1.546	1.733	1.761	1.583	1.656	-1.6
Car sales	mil. units	9.2	9.3	9.5	9.3	9.7	9.5	3.3

*Historical data (1) % change over previous year

REAL GROWTH

The Federal Reserve Board estimates that industrial production went up by 7 per cent between last November and May whereas the average gain in the first half year of prior post-war recoveries was 7.8 per cent. That is in line with the view spelled out in the Overview section. That is, the recovery is not as strong as it looks when considering the preliminary 6.6 per cent figure for second quarter growth.

Positive Developments

1. Industrial output went up by 1.1 per cent in May. Still, that is below the April gain of 2.0 per cent and the March increase of 1.3 per cent. The index was at 144.3 per cent of the 1967 average in May. That is up 3.7 per cent from a year ago. However, it was still below the peak of 1953.9 reached in July of 1981.

2. New orders by manufacturerers gained over $8 billion to reach $166.06 billion in April. Unfilled orders were up by close to $3 billion from the March level.

3. Retail sales in May increased by 2.1 per cent from the adjusted April level. That was not quite as robust as it seems in that the role of housing and autos were influential, but they are not seen here as steadily gaining at fast pace. The May gain for retail sales was the third consecutive improvement. Stores specializing in durable goods sales were up by 3.9 per cent in May. Nondurable sales, such as food and clothing, increased 1.3 per cent. Early data for June indicate that June durable goods sales were again up by approximately 3.4 per cent and nondurable sales by a modest 1.1 per cent increment.

4. Factory shipments continue to gain slowly but surely. In April, they rose to $163.37 from the March figure of $161.8 billion. KEDI forecast shows that factory shipments will keep increasing an average of $3 billion a month throughout the rest of the year.

5. The factory use rate edged up again to 72 per cent in May.

Transitional Developments

6. Durable goods orders showed a very small gain. Actually, the tiny

1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Consumer price index,n.s.a.	1967=100	288.6	292.5	297.0	299.6	302.2	297.8	3.2
Producer price index,n.s.a.**	1967=100	280.6	283.4	285.0	287.5	289.0	286.2	2.0
Price deflators:								
GNP	1972=100	207.1	213.3	216.3	218.3	220.9	217.1	4.8
Personal cons. expenditures	1972=100	206.0	211.0	213.3	215.3	217.7	214.3	4.0
Gross private dom.investment	1972=100	214.3	214.4	217.9	220.8	224.1	219.3	2.3
Federal purchases	1972=100	221.7	231.3	233.4	235.2	237.8	234.4	5.7

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Consumer price index,n.s.a.	1967=100	297.8	305.9	309.8	312.8	315.4	310.9	4.4
Producer price index,n.s.a.**	1967=100	286.2	294.5	297.7	302.9	308.9	301.0	5.2
Price deflators:								
GNP	1972=100	217.1	223.6	226.8	230.9	234.2	228.9	5.4
Personal cons. expenditures	1972=100	214.3	220.2	223.2	227.7	230.7	225.5	5.2
Gross private dom.investment	1972=100	219.3	225.7	228.6	232.9	236.8	231.0	5.3
Federal purchases	1972=100	234.4	240.7	243.1	246.8	250.2	245.2	4.6

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Consumer price index,n.s.a.	1967=100	310.9	317.9	322.0	327.0	333.4	325.1	4.6
Producer price index,n.s.a.**	1967=100	301.0	314.2	318.1	323.1	327.3	320.7	6.5
Price deflators:								
GNP	1972=100	228.9	236.9	239.7	242.6	245.4	241.2	5.4
Personal cons. expenditures	1972=100	225.5	232.5	235.0	238.3	240.4	236.8	5.0
Gross private dom.investment	1972=100	231.0	240.2	243.7	247.1	251.2	245.6	6.3
Federal purchases	1972=100	245.2	254.1	257.3	261.1	263.9	269.1	5.7

*Historical data (1) % change over previous year **Finished goods

addition can be viewed as negative news if one is looking for lots of recovery strength. New orders were up just a tad in May to an adjusted $83.60 billion from the April total of $83.41.

7. Machine tools continue around the bottom even though orders were up by 28 per cent in May. The total of May, 1982, was quite weak, indeed, making a comparison misleading. For the first four months of this year, orders were off by 34 per cent from the depressed like period of last year. According to Burk Kalweit of the National Machine Tool Builders Association, since 1980 there has been a cut of about 44,000 workers in machine tools to roughly 66,000 this year. Weak demand and expanding imports have taken their toll.

8. Plant and equipment spending will average 3.1 per cent less this year than last, after adjustment for inflation according to a survey of the Commerce Department. Spending was off by 5.5 per cent in 1982 after barely growing at all in 1981. (One is reminded of the old chicken and egg question: has low demand for products led to low levels of improvements or expansion in U.S. plants, or has lack of "updating" caused American products to be less in demand due to cheaper and/or better foreign goods? The answer is not simple.)

Overall, the picture that emerges from the continued mixed news that leans to the good side is a confirmation of KEDI's forecast of slow growth.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 7)

The forecast is slightly increased. In May, consumer prices increased by 0.5 per cent and approximately 0.6 gain is expected to take place in June. More than half of the May change was caused by hikes in energy-product prices. KEDI does not anticipate any more gains in oil prices. The view of John Lichtblau of the Petroleum Research Foundation that oil-market pressures will be on the down side is shared here.

1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Gross national product	bil.$	3059.3	3170.5	3277.3	3342.9	3414.4	3281.0	7.7
Personal cons. expenditures	bil.$	1971.1	2052.9	2090.7	2132.1	2173.3	2112.2	7.2
Gross private dom. investment	bil.$	420.2	421.7	487.2	503.6	522.6	483.7	8.2
Net exports	bil.$	20.6	19.6	13.4	12.5	11.2	14.2	-31.1
Government purchases:								
Federal	bil.$	257.9	274.1	278.4	282.1	289.2	281.0	9.0
State and local	bil.$	389.9	402.2	408.0	412.6	418.1	410.2	5.2

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product	bil.$	3281.0	3490.8	3589.8	3690.2	3786.7	3612.0	10.1
Personal cons. expenditures	bil.$	2112.2	2224.9	2287.6	2359.7	2420.0	2323.1	10.0
Gross private dom. investment	bil.$	483.7	535.6	556.0	572.7	592.7	564.2	16.6
Net exports	bil.$	14.2	7.4	5.3	5.0	4.2	5.5	-61.3
Government purchases:								
Federal	bil.$	281.0	297.2	307.9	311.9	318.8	309.0	10.0
State and local	bil.$	410.2	425.7	433.0	440.9	451.0	437.6	6.7

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil.$	3612.0	3857.9	3942.9	4038.8	4132.7	3981.5	10.3
Personal cons. expenditures	bil.$	2323.1	2461.9	2509.6	2569.6	2611.8	2539.6	9.3
Gross private dom. investment	bil.$	564.2	607.0	619.7	638.0	657.1	630.7	11.8
Net exports	bil.$	5.5	-.3	.1	1.6	2.9	1.1	-80.0
Government purchases:								
Federal	bil.$	309.0	328.1	335.2	341.2	347.2	337.9	9.4
State and local	bil.$	437.6	461.2	478.3	488.4	508.7	484.2	10.6

*Historical data (1) % change over previous year

PRICES

This Institute expects inflation this year will be in the 3.0 per cent range. The outlook of Donald Ratajczak of Georgia State for price increases 0f 4.-4.5 per cent is seen here as just too high. In terms of the CPI, the main increases in the latter half of this year are seen in food, entertainment, and medical services. Prices for small autos will remain stable.

In the last issue, KEDI forecast that producer prices would rise in May. They had been declining in April. Data released in mid-June confirmed the forecast. Producer prices were up 0.5 per cent for finished goods in May. The index for intermediate goods rose 0.4 per cent, whereas the index for crude goods was unchanged. KEDI agrees with Susan Lakatos of Washington Analysis Corp. that the PPI will rise by 1.5-2 per cent this year. That would make it the lowest gain since 1970. More significant increases in prices of crude materials are expected in the last six months of this year. In terms of finished products, main gains are forecast for food (meat included). However, the second half of this year can still be viewed as recording "gentle" hikes in the overall indexes.

1.22 NOMINAL GNP

(Table 1.22 on page 9)

The forecast of the nominal value of GNP and components remains essentially unchanged. As compared with the June forecast values of Gross Private Domestic Investment have been increased mainly due to the upward revision of inventory changes in 1983 and 1984, and values of Net Exports have been slightly decreased due to the upward revision of anticipated import prices.

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

No significant drops in the unemployment rate are forecast. The projection here for the average of the fourth quarter of this year is 9.3 per cent. That is roughly in line with the outlook of the Administration.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.2	112.3	113.4	114.9	115.8	114.1	3.5
Employment	mil.	99.5	100.7	102.0	103.8	105.0	102.9	3.4
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	96.1	97.4	98.6	100.5	101.6	99.5	3.5
Unemployment rate	%	9.72	10.34	10.02	9.66	9.32	9.84	1.2

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Population	mil.	232.5	234.5	234.5	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	117.0	117.9	118.8	120.1	118.5	3.9
Employment	mil.	102.9	106.4	107.3	108.5	110.2	108.1	5.1
Agriculture	mil.	3.4	3.3	3.4	3.4	3.3	3.4	.0
Non agricult.	mil.	99.5	103.1	103.9	105.1	106.8	104.7	5.2
Unemployment rate	%	9.84	9.09	8.95	8.64	8.21	8.72-11.4	

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Population	mil.	235.7	237.5	238.1	239.1	240.1	238.7	1.3
Civilian labor force	mil.	118.5	121.0	121.1	123.2	124.5	122.7	3.5
Employment	mil.	108.1	111.2	112.4	113.6	115.4	113.1	4.6
Agriculture	mil.	3.4	3.3	3.3	3.3	3.3	3.3	-0.1
Non agricult.	mil.	104.7	107.9	109.1	110.3	112.1	109.7	4.8
Unemployment rate	%	8.72	8.11	7.93	7.81	7.34	7.80-10.6	

*Historical data (1) % change over previous year

EMPLOYMENT AND LABOR

A bit of good news is found in jobless claims. The figures have been going down. Even though 432,000 jobless Americans applied for unemployment benefits for the first time in early June, it was the lowest total since the latter part of 1981.

There was some change in the adjusted rate of unemployment "down" to 10.1 per cent in May from 10.2 in April. Close to 11.2 million were out of work. The job market will continue to be too narrow for too broad a sample of millions of Americans for years to come. KEDI does not project the rate as edging down to the low 7 per cent range until well into 1987. It is calculated as declining by about 0.8 per cent in each of the next two years.

Joint Economic Committee economist Paul Manchester pointed out the average length of unemployment rose to 20.4 weeks in May. That is the highest average ever reported.

By state, unemployment in April ranged from a high of 19 per cent in West Virginia and 15.5 per cent in Michigan to a low of 6.1 in Hawai and 6.2 in South Dakota. KEDI's forecast shows that the unemployment pattern by states will remain fairly stable in the 1984-1986 period. High unemployment will persist in Michigan, West Virginia, Ohio, Washington, Illinois, Indiana, Alabama, Washington, and Pennsylvania. Low level unemployment is expected in Texas, Hawaii, Delaware, Georgia, Kansas, Massachusetts, New Hampshire, Dakotas, Virginia, and Vermont.

1.41 HOUSING

(Table 1.41 on page 13)

The forecast is somewhat changed with housing starts seen as amounting to 1.6 million this year as opposed to 1.5 million. The May gain was a little better than had been expected here--and elsewhere. For example, the Mortgage Bankers Association is likely to have moved its estimate up above 1.5 million by the time the reader sees this.

Housing starts in May were up by 19.1 per cent from the April

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Single-family housing starts	mil.	.656	1.065	1.009	1.004	.842	.980	49.4
Multifamily housing starts	mil.	.405	.628	.606	.596	.574	.601	48.4
Mobile home shipments	mil.	.239	.282	.284	.289	.265	.280	17.2
Permits authorized	mil.	1.000	1.464	1.548	1.507	1.421	1.485	48.5
1-family unit** price, new	tho.$	84.0	88.4	92.3	94.5	97.0	93.1	10.8
1-family unit** price,existing	tho.$	80.3	82.4	84.5	87.0	89.8	85.9	7.0

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Single-family housing starts	mil.	.980	.899	1.182	1.176	.978	1.059	8.1
Multifamily housing starts	mil.	.601	.582	.636	.654	.629	.625	4.0
Mobile home shipments	mil.	.280	.274	.286	.290	.285	.284	1.4
Permits authorized	mil.	1.485	1.297	1.514	1.406	1.406	1.416	-4.6
1-family unit** price, new	mil.	93.1	98.0	99.3	102.7	104.1	101.0	8.5
1-family unit** price,existing	tho.$	85.9	91.0	92.1	94.0	96.1	93.3	8.6

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Single-family housing starts	mil.	1.059	.932	1.075	1.091	.982	1.020	-3.7
Multifamily housing starts	mil.	.625	.614	.658	.669	.601	.636	1.8
Mobile home shipments	mil.	.284	.265	.277	.280	.264	.272	-4.2
Permits authorized	mil.	1.416	1.280	1.559	1.580	1.461	1.470	3.8
1-family unit** price, new	tho.$	101.0	105.0	106.2	107.7	109.3	107.1	6.0
1-family unit** price,existing	tho.$	93.3	97.2	98.0	98.6	99.2	98.3	5.4

*Historical data (1) % change over previous year **Not seas. adjusted

HOUSING

level. The annual rate was at an adjusted 1.791 level. Being somewhat of a "wet blanket," it is necessary to point out the April rate was a bit drained by the very wet weather. Building permits were up by 5.6 per cent from the April level.

There were also good news from the housing resale side. Single-family resales increased by 5 per cent in May. Sales were at an annual rate of 2.86 million units. The median price here was $69,300. Still, most of the gain came before the mortgage rate went back close to 13 per cent toward the end of the month. Jack Carlson of the National Association of Realtors estimated that there were 2.41 million houses for sale at the end of May representing a 10.1 month supply.

Speaking of supply, there is just too much of it. That also is hardly a push toward more building. The inventory is 23 per cent above what it was in June of 1982. The estimate at that time was that it would be enough for 11.8 months. The movement down to 10.1 is not anywhere near enough to give an impetus to present rate of gains in housing.

It does not take much to be aware that current prices plus mortgage rates will keep many people out of the housing market for quite some time--except in their dreams.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast is not changed. The increases recorded in the second quarter were anticipated here. No straight-line projection is called for based on the 73 per cent leap in sales for the middle part of June. Even industry analysts acknowledged that the jump was misleading as mid-June of last year was very depressed due to the price hikes and the ending of promotions of that time.

The forecast here is roughly in line with that of Ward's Automotive News for the third quarter of this year. KEDI projects 1.62 million cars will be made. Ward's is just slightly higher with their forecast of 1.68 million.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Passenger cars								
Total sales	mil.	8.0	8.4	8.8	8.8	9.0	8.8	10.0
Domestic	mil.	5.8	6.0	6.4	6.5	6.8	6.5	12.1
Imported	mil.	2.2	2.4	2.4	2.3	2.2	2.3	4.5
Dealers inventories**	mil.	1.9	1.2	1.3	1.4	1.5	1.4	-26.3
Factory shipments	mil.	5.0	6.0	6.5	6.7	6.8	6.5	30.0
Light-duty truck sales	mil.	2.1	2.1	2.2	2.0	2.1	2.1	0.0

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Passenger cars								
Total sales	mil.	8.8	9.1	9.0	9.4	9.5	9.2	4.5
Domestic	mil.	6.5	6.8	6.8	7.1	7.1	6.9	6.2
Imported	mil.	2.3	2.3	2.2	2.3	2.4	2.3	0.0
Dealers inventories**	mil.	1.4	1.6	1.7	1.6	1.5	1.6	14.3
Factory shipments**	mil.	6.5	6.9	6.8	7.0	7.2	7.0	7.7
Light-duty truck sales	mil.	2.1	2.0	2.2	2.1	2.2	2.2	4.8

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Passenger cars								
Total sales	mil.	9.2	9.3	9.5	9.3	9.7	9.5	3.3
Domestic	mil.	6.9	7.0	7.1	7.0	7.2	7.1	2.9
Imported	mil.	2.3	2.3	2.4	2.3	2.5	2.4	4.3
Dealers inventories**	mil.	1.6	1.7	1.7	1.6	1.6	1.6	0.0
Factory shipments**	mil.	7.0	7.2	7.1	7.1	7.4	7.3	4.3
Light-duty truck sales	mil.	2.2	2.2	2.3	2.3	2.2	2.3	4.5

*Historical data (1) % change over previous year **Seas. not adjusted

1.50 BUDGETS

(Table 1.50 on page 17)

President Reagan's view is that tax increases would harm rather than help recovery. KEDI agrees. This Institute maintains its position that the time for tax increases is in fiscal 1985 and not in 1984. By then the recovery will be solidly under way. It has to be kept in mind that average state taxes are going up 8.7 per cent this year, and the percentage gain next year will be about the same. The 10 per cent July 1 income tax cut has already been absorbed to a large extent by the increases in taxes at the state level. (What one level of government giveth, the other taketh away.) Also, higher social security taxes are involved. The bottom line: there is no net gain for the average wallet.

The KEDI forecast of the fiscal 1984 deficit is now $172 billion WITHOUT the proposed $12 billion in tax hikes approved by Senate and House negotiators and with 10 per cent more in defense spending. The White House is not pleased with the budget plan that still has to go before both Houses. It has $14 billion more in spending for domestic programs than the President requested for fiscal 1984.

The Treasury has been projecting the deficit for fiscal 1984 at 190.2 billion.

1.60 INCOME

(Table 1.60 on page 19)

There is a fractional decrease in the forecast of personal income and related aggregates as can be seen here.

KEDI Forecast of Percentage Change in 1983 over 1984

	June '83 issue	July '83 issue
Personal Income	+6.1	+5.9
Personal Disposable Income	+6.8	+6.5

The projection of average weekly earnings and corporate profits are similarly adjusted. The forecast of personal saving remains low.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Federal govt.:								
Income taxes	bil.$	300.1	297.7	304.2	294.1	308.5	301.1	.3
Corporate prof. tax accruals	bil.$	47.5	53.4	55.4	57.5	59.1	56.4	18.7
Surplus/deficit	bil.$	-149.3	-174.0	-188.5	-202.5	-182.4	-186.9	7.4
State and local governments:								
Income taxes	bil.$	97.1	103.3	104.0	106.2	108.7	105.6	8.7
Corporate prof. tax accruals	bil.$	10.4	11.7	12.4	13.0	13.5	12.7	22.1
Surplus/deficit	bil.$	32.2	42.3	43.4	44.5	45.7	44.0	36.6

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Federal govt.:								
Income taxes	bil.$	301.1	311.9	320.8	327.6	337.4	324.4	7.7
Corporate prof. tax accruals	bil.$	56.4	63.1	64.8	68.0	70.0	66.5	17.9
Surplus/deficit	bil.$	-186.9	-175.8	-168.3	-159.6	-148.1	-163.0	-12.8
State and local governments:								
Income taxes	bil.$	105.6	111.6	114.2	116.0	117.3	114.8	8.7
Corporate prof. tax accruals	bil.$	12.7	14.7	15.4	15.9	16.7	15.7	12.4
Surplus/deficit	bil.$	44.0	46.8	48.2	49.2	51.3	48.9	11.1

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Federal govt.:								
Income taxes	bil.$	324.4	343.8	351.2	360.4	370.8	356.5	9.9
Corporate prof. tax accruals	bil.$	66.5	73.4	75.2	77.5	79.2	76.4	14.9
Surplus/deficit	bil.$	-163.0	-115.6	-92.8	-83.1	-70.2	-90.4	-44.5
State and local governments:								
Income taxes	bil.$	114.8	122.6	125.1	128.9	132.3	127.2	10.8
Corporate prof. tax accruals	bil.$	15.7	17.2	17.3	17.6	18.4	17.6	12.8
Surplus/deficit	bil.$	48.9	52.2	54.1	54.6	55.0	54.0	10.4

*Historical data (1) % change over previous year

INCOME

This Institute calculates a decline of 4.3 per cent this year as compared to last year. That is in line with the drop in May. The adjusted annual rate of personal savings went down to $121.3 billion from a level of $133.4 in April. That meant savings were at 5.3 per cent of after-tax income whereas they averaged 6.5 per cent last year.

Mr. Ortner of the Commerce Department and Mr. Chimerine of Chase Econometrics brightly pointed out that it may have been anticipation of the July tax cut and extra dollars in the pay checks that led people to save less and to spend more in May. KEDI does not agree. State and local taxes are going up. People are saving less because they have to pay more on taxes. (In the near future, the government break-up of the nation's largest phone company will lead to unfortunate hikes in the phone bills of a substantial portion of the public. Again, that means less available for saving. Gas and electric hikes also proceed.)

The mid-year tax cut is seen here as leading to a smaller increase in savings as compared to the result of the cut last year. At that time savings were boosted by $8 billion. The gain this year is seen as $6.5 billion.

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The forecast of the expansion of M1 for this year over last year is increased somewhat to 6.8 from 6.5 per cent. KEDI shares the view that M1 is no longer a highly reliable policy guide. The measure has been diluted by changes in banking regulations. M1 is no longer just funds ready for spending as it includes funds that are being saved and invested.

However, the 15 per cent May increase in M1 clearly indicates that growth has been excessive. It does need to be restricted. This Institute agrees with Mr. Feldstein that it should not be allowed to continue to expand at recent rates.

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1982*	1983 1	1983 2	1983 3	1983 4	1983	% (1)
Personal income	bil.$	2569.9	2648.2	2696.1	2739.3	2798.6	2720.6	5.9
Personal disposable income	bil.$	2172.8	2247.2	2287.9	2339.0	2381.4	2313.9	6.5
Compensation of employees	bil.$	1853.9	1908.1	1946.8	1968.8	2026.3	1962.5	5.8
Corporate after tax profits	bil.$	117.7	112.8	120.6	129.5	141.3	126.1	7.1
Personal saving	bil.$	143.2	133.3	135.3	141.3	140.7	137.6	-3.9
Average weekly earnings	$	330.1	342.3	250.7	356.2	362.0	352.8	6.9

Indicator	Unit	1983	1984 1	1984 2	1984 3	1984 4	1984	% (1)
Personal income	bil.$	2720.6	2862.8	2944.5	3038.1	3108.3	2988.4	9.8
Personal disposable income	bil.$	2313.9	2439.3	2509.5	2594.5	2653.6	2549.2	10.2
Compensation of employees	bil.$	1962.5	2073.6	2120.9	2172.8	2223.4	2147.7	9.4
Corporate after tax profits	bil.$	126.1	144.0	147.1	149.8	152.5	148.4	17.7
Personal saving	bil.$	137.6	146.6	152.5	163.1	161.2	155.9	13.3
Average weekly earnings	$	352.8	369.7	375.2	380.1	386.6	377.9	7.1

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Personal income	bil.$	2988.4	3162.5	3222.6	3294.3	3354.3	3258.4	9.0
Personal disposable income	bil.$	2549.2	2696.1	2746.3	2805.0	2851.2	2774.7	8.8
Compensation of employees	bil.$	2147.7	2254.0	2337.2	2391.2	2504.2	2371.7	10.4
Corporate after tax profits	bil.$	148.4	158.2	163.7	167.0	169.3	164.3	10.7
Personal saving	bil.$	155.9	160.4	161.2	159.4	156.6	159.4	2.2
Average weekly earnings	$	377.9	392.2	399.1	404.7	411.5	401.9	7.0

*Historical data (1) % change over previous year

MONEY AND CREDIT

KEDI has been forecasting for two years that there would be tightening of monetary and credit policy in the second half of this year. Confirmation is found in statements by bankers and other economists alike. For example, in late June, it was reported that the chief economist at the Bank of America in San Francisco predicted short-term rates would rise temporarily. Recovery strength may overstimulate the economy and light inflationary fires without action by the Fed. Maury Harris of Paine Weber also noted that recent drops in M1 need to continue (The Wall Street Journal, June 27, 1983.)

There are no essential changes in the projection of M2, loans, consumer installment credit, and other aggregates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 22)

Again, the forecast that has been maintained here for two years is being confirmed. Interest rates will go up in the latter part of this year. That is already starting to happen. As was noted in the section here on housing, mortgage rates have edged up to 13 per cent. In early June the rate on home loans backed by the U.S. went up from 11.5 to 12 per cent after 16 months of decreases.

The yields on short-term Treasury securities went up to an average of 9.09 per cent in late June. Six-month bills averaged 9.14 per cent. The yield on 6-month CD's went up to 9.39.

KEDI projects that the prime rate will go up to 11.8 per cent by year's end. As can be seen in Table 1.80 KEDI projects the prime rate will average 11.2 in the third quarter up from 10.5 in the second quarter. The conventional mortgage rate is forecast at an average of 12.3 in the third quarter and 12.6 during the last three months of this year.

The forecast of the stock market remains the same with the Dow-Jones Industrials average being seen as having reached its peak in the 1250 range. No significant ups or downs are foreseen in 1983-1984 period.

TABLE 1.10 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Currency and demand deposits,M1	bil.$	475.4	486.4	511.2	516.7	520.3	508.7	7.0
Time deposits, adjusted,M2	bil.$	1918.2	2031.0	2087.8	2172.9	2209.4	2125.3	10.8
Consumer instal. credit	bil.$	343.4	345.5	351.8	359.6	368.4	368.4	7.3
Commerc.& indus. loans at banks	bil.$	394.6	405.8	408.2	414.0	418.9	418.9	6.2
Large denomination time dep.	bil.$	326.6	323.8	330.9	339.3	344.9	334.9	2.6
Mortgages at S & L Assns.	bil.$	484.3	490.6	509.7	516.2	526.2	526.2	8.7

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Currency and demand deposits,M1	bil.$	508.7	527.9	534.8	547.2	559.1	542.3	6.6
Time deposits, adjusted, M2	bil.$	2125.3	2242.6	2289.3	2337.8	2416.5	2321.6	9.2
Consumer instal. credit	bil.$	368.4	372.3	378.3	389.6	398.7	398.7	8.2
Commerc.& indus. loans at banks	bil.$	418.9	421.7	429.5	440.3	450.6	450.6	7.6
Large denomination time dep.	bil.$	334.9	348.4	354.6	362.8	373.6	359.9	7.6
Mortgages at S & L Assns.	bil.$	526.2	533.2	547.4	559.0	569.1	569.1	8.2

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Currency and demand deposits,M1	bil.$	542.3	565.9	577.4	586.3	597.1	581.7	7.3
Time deposits, adjusted,M2	bil.$	2321.6	2466.1	2542.4	2627.0	2718.2	2588.4	11.5
Consumer instal. credit	bil.$	398.7	408.3	414.0	421.5	428.7	428.7	7.5
Commerc.& indus. loans at banks	bil.$	450.6	459.2	464.3	472.1	480.6	480.6	6.7
Large denomination time dep.	bil $	359.9	381.2	388.0	396.9	407.8	393.5	9.3
Mortgages at S & L Assns.	bil.$	569.1	576.7	585.4	594.3	600.1	600.1	5.4

*Historical data (1) % change over previous year

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1982*	1983 1	2	3	4	1983	% (1)
Treasury bills (3 mo) yield	%	10.20	8.07	8.14	9.02	9.47	8.68	-15.0
Prime rate	%	14.86	10.82	10.50	10.68	11.34	10.84	-27.1
Conventional mortgages rate	%	15.57	13.11	12.28	12.46	12.53	12.60	-19.1
Aaa corporate bonds rate	%	13.78	11.81	11.42	11.58	11.98	11.70	-15.1
20 years Govt. bonds yield	%	12.70	10.89	10.94	11.15	11.46	11.11	-12.5
Standard & Poor's 500 avg.	1941-43=100	119.75	145.26	142.75	141.07	138.02	137.24	10.6

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	8.68	9.12	8.93	8.26	8.72	8.76	.9
Prime rate	%	10.84	10.82	10.63	10.51	11.02	10.75	.8
Conventional mortgages rate	%	12.60	12.32	12.14	11.87	11.92	12.06	-4.3
Aaa corporate bonds rate	%	11.70	11.76	11.62	11.43	12.02	11.71	.0
20 years Govt. bonds yield	%	11.11	11.54	11.80	12.05	12.13	11.88	6.9
Standard & Poor's 500 avg.	1941-43=100	137.24	138.48	136.51	140.73	137.26	138.25	7.4

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Treasury bills (3 mo) yield	%	8.76	8.94	9.35	9.64	9.20	9.28	6.6
Prime rate	%	10.75	11.27	11.47	11.63	11.85	11.56	7.5
Conventional mortgages rate	%	12.06	11.84	11.78	11.84	11.95	11.85	-1.7
Aaa corporate bonds rate	%	11.71	12.08	11.90	11.91	11.27	11.79	.7
20 years Govt. bonds yield	%	11.88	12.70	12.81	12.97	13.14	12.95	8.7
Standard & Poor's 500 avg.	1941-43=100	138.25	133.54	134.72	131.84	129.75	132.46	-4.2

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Personal Disposable Income for the year 1982 has been selected for comparison. The actual figure is in the Survey of Current Business, No.5, May 1983, p.8, (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1982 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1982). The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Personal Disposable Income, bil. $)

Actual figure: 2172.7

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1982	% of Accuracy
Georgia State	11/81	2214.0	15	+1.9
Harris Trust and Savings Bank	11/11/81	2183.1	17	+.5
Metropolitan Life Insurance Company	12/1/81	2284.8	21	+5.2
Standard & Poor's Corporation	12/10/81	2237.4	24	+3.0
Fidelity Bank	12/18/81	2225.6	26	+2.4
KEDI	1/1/82	2139.0	28	-1.6
Morgan Guaranty	1/7/82	2213.7	30	+1.9

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expendit.	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases of goods and services	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expendit.	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Government purchases of goods and services:	
	Federal	SCB, Table 1.1
	State and local	SCB, Table 1.1

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series	Source
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, exist.	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	
	Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal government:	
	Income taxes	SCB, Table 3.2
	Corporate profit tax accr.	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local governments:	
	Income taxes	SCB, Table 3.3
	Corporate profit tax accr.	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND	Currency and demand dep.,M1	FRB, Table 1.21
	Time deposits, adjusted,M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.56
	Commercial and industr.loans	FRB, Table 1.23
	Large denomin. time deposits	FRB, Table 1.21
	Mortgages at S&L Assoc.	FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Convent. mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years govt. bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36